News Highlights

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PORTLAND
INVESTMENT COUNSEL®

Our views on economic and other events and their expected impact on investments. April 11, 2016

Energy Sector

Whitecap Resources, Inc. (WCP) – announced an increase to its 2016 capital program by $78 million to $148 million from the previous guidance of $70 million. The increased capital program will be funded by reducing the monthly dividend to $0.0233 per share ($0.28 per share annually) from the current monthly dividend level of $0.0375 per share ($0.45 per share annually) and increased funds flow. This proactive reallocation of funds flow is expected to better position the company to capture improving economics from recovering commodity prices by increasing capital towards profitable growth. Crude oil prices have recovered significantly from hitting a low of US$26/barrel (bbl) in mid-February and are currently trading at approximately US$40/bbl. This price recovery combined with lower cost of services and strong capital efficiency gains now allow WCP to achieve an acceptable level of return on capital employed which is the primary focus of its long term strategy. The company maintains the ability to quickly increase or decrease its capital program as it operates essentially all of its core assets and has a deep understanding of its high quality drilling inventory. This ability to quickly adapt to the current commodity price environment ensures that its funds flow allocation between capital expenditures and dividends optimizes shareholder returns. The $78 million increase to the capital program to a total of $148 million will be spent on strong netback light oil projects in the 2nd quarter 2016 drilling an additional 47 (44.6 net) wells including 28 (26.6 net) Viking light oil wells in west central Saskatchewan, 10 (10 net) Cardium light oil wells in West Pembina and Ferrier, 5 (4.0 net) light oil horizontal wells in the Deep Basin, 2 (2.0 net) wells in Boundary Lake and 2 (2.0 net) wells at Elnora for a full year 2016 drilling program of 71 (67.8 net) wells. The allocation of capital spending across WCP's core assets is designed to optimally balance high cash netbacks with short payout production additions, reduction of its base declines, maintenance and optimization of its high quality inventory and strategic initiatives that allow the company to quantify and enhance financial performance beyond the current budget cycle.

U.S. land rig count fell 6 units to 414, led by vertical oil (-6) and horizontal oil (-5), partially offset by gains in directional oil (+3) and vertical gas (+2), while horizontal gas and directional gas remained flat week over week. Total horizontal land rig count has declined 75% since the peak in November 2014.

U.S. horizontal oil land rigs decreased by 5 to 275 and down 32% over the last 11 weeks led by the Permian (-3), Williston (-2), Eagle Ford (-1), and "Other" (-1), slightly offset by giants in the Woodford (+2), while DJ-Niobrara, Granite Wash, and Mississippian remained flat. This is the 15th consecutive week of declines for horizontal oil land rigs. Additionally, the Permian lost 1 vertical oil land rig.

U.S. offshore rig count remained flat at 24 units, and is down 56% since June 2014.

Canadian rig count was down 6 rigs and remains 59% off the level this time last year.

International land rigs averaged 985 in March with land rigs down 19 and offshore rigs down 14 month/month, led by Latin America (-19), Europe (-11), and Middle East (-7), slightly offset by Africa (+3) and Asia Pac (+1) and total rigs down 266 year on year.

Financial Sector

Barclays plc published a circular yesterday on sell-down of African business as well as some reminders for 1Q 2016 trading. Both strategic and capital markets led options are still being considered to execute the sell-down of Barclays African business with prior approval being sought at the AGM in April, which would result in accounting de-consolidation. As for the 1Q 2016 trading update, there was nothing new in the release. Barclays said non-core income expected to deteriorate further compared with prior quarters, mainly due to further marks against the bank's education, social housing and local authorities loan portfolio (estimated at £200million). Investment Banking income in Jan/Feb broadly in line with Jan/Feb 2015. March 2016 expected to be down on March 2015, therefore 1Q 2016 will be down on 1Q 2015. (Source: Bloomberg)

Oversea-Chinese Banking Corporation Limited (OCBC) has agreed to buy **Barclays**' wealth management operations in Singapore and Hong Kong for $320 million, its second major private banking deal since 2009. The lender outbid DBS Group Holdings Limited which had been seen by some as the early favourite, sources with knowledge of the matter said. With the purchase, OCBC's Bank of Singapore unit will see its assets under management rise by about a third to $73.3 billion and its number of private bankers will climb by 88 to 400, OCBC said in a statement. (Reuters)

Barclays has become the first big British bank to form a partnership with a digital currency firm, social payments app Circle Internet Financial, which runs partly on bitcoin's blockchain network and launched in the UK on Wednesday. Circle Internet Financial, a US mobile payment start-up backed by The Goldman Sachs Group Inc. uses bitcoin to transfer central bank currencies, as digital money increasingly moves into mainstream finance. It is the first time a European bank has allowed a digital currency company to use its infrastructure, enabling it to transfer sterling and euros, according to the two companies. From Wednesday the payment app, which transfers dollars by first converting them to bitcoin, will also be able to transmit sterling between users of the app by linking to their debit cards. The tie-up with Barclays means Circle will be able to move sterling across the blockchain, a public ledger where bitcoin transactions are verified and recorded. Users will be able to exchange sterling and dollars immediately and free of charge. In what Britain's Treasury called a "major milestone" in its push to make the U.K. the world's capital for financial technology, or fintech, Circle was granted an e-money license by the Financial Conduct Authority, the U.K. regulator - another first for a digital currency company. The Boston-based start-up, which is backed by $76 million in venture capital and counts Goldman Sachs and former JPMorgan Chase & Co. executive Blythe Masters' Digital Currency Group among its investors, said the license would allow it to hold users' money and to facilitate domestic and international payments. (Sources: Reuters/Financial Times).

BNP Paribas SA - Dow Jones reports that BNP is planning IPO for First Hawaiian Bank which could come as soon as June. Sources said the bank will seek to raise ~$1 billion at a valuation of $4-5 billion.

Citigroup Inc. is preparing to do more lending in emerging markets to fill a gap left by retreating local operators. Manolo Falco, the bank's head of corporate and investment banking for EMEA (Europe, Middle East and Africa), said lending in markets such as Turkey, the Middle East and Africa would be a key focus of the lender's newly appointed heads of EMEA corporate banking, Tom Isaac and Ashu Khullar, who were promoted last week. "We now have a big opportunity," Mr Falco said. "Many markets have local banks that for years gave [corporates] a lot of cheap money, but those banks are now being much less aggressive and pricing has normalised." (Source: Financial Times)

Royal Bank of Scotland Group plc - The Financial Times reports RBS is to close its banking operations in India, having given up on efforts to find a buyer amid concerns about an extended regulatory approval process for a deal.

Standard Chartered plc – Bloomberg reported that Standard Chartered is seeking to sell at least $4.4 billion of assets in Asia. The London-based bank is understood to be speaking with potential buyers for about $1.4 billion of stressed loans extended to Indian companies including GMR Infrastructure Ltd. Standard Chartered has also started a sale of around $3 billion of assets in the rest of Asia. The assets being sold in the rest of Asia include loans as well as proprietary bond and equity investments in China, Indonesia and Malaysia. The bank is also seeking to sell part of its portfolio in Africa and the Middle East.

Activist Influenced Companies

Hertz Global Holdings Inc. – announced that, due to what the company believes is excess industry capacity, it now expects its first quarter and full year 2016 U.S. car rental (U.S. RAC) revenue and consolidated first quarter adjusted earnings per share to be lower than previously expected. Despite this reduction, the company is affirming its full-year 2016 adjusted Corporate earnings before interest, taxes, depreciation and amortization (EBITDA) guidance within a range of $1.6 to $1.7 billion. For the first quarter 2016, Hertz Global Holdings expects US RAC revenue per available car day (RACD) to decline between 2.5% to 3.5% versus the same period last year on low single-digit growth in transaction days. For the full year 2016, Hertz Global Holdings now expects U.S. RAC total revenue to be flat to 1.5% lower versus the company's previous guidance of 1.5% to 2.5% growth year over year. The company continues to expect modest US RAC transaction day growth in 2016, primarily driven by its on-airport business. In addition to maintaining its 2016 adjusted Corporate EBITDA guidance, the company provided corresponding full-year adjusted earnings per share guidance of between $0.95 per share and $1.10 per share, which is based on an average of 424 million shares outstanding and a 37% effective tax rate. "We are disappointed that the pricing pressure experienced late in 2015 further intensified in the first quarter of 2016. However, we believe that industry capacity will likely moderate as seasonal demand improves establishing the foundation for a relative improvement in pricing as we head into the peak summer season," said President and Chief Executive Officer John Tague. Hertz Global Holdings continues to expect to achieve $350 million of incremental savings in 2016. Similar to 2015, the company expects a lower rate of savings realization during the first half of the year as targeted initiatives ramp up throughout 2016.

Canadian Dividend Payers

Brookfield Infrastructure Partners LP – Brookfield Asset Management Inc. is reportedly close to raising $10 billion for its new global infrastructure fund within weeks. The first close for the fund, which would be among the biggest private equity-style infrastructure vehicles ever raised, comes as investors allocate more to the asset class amid low fixed-income yields. "There is an enormous change going on in the institutional client world, driven by the fact that interest rates have come down dramatically over the last number of years, and they need to earn yield within their funds," Bruce Flatt, Brookfield's chief executive, said on its Feb. 12 earnings call. He said most institutions still don't have enough allocated to real estate and infrastructure, as compared to other investments. Brookfield expects to hit the self-imposed $12 billion cap for Brookfield Infrastructure Fund III LP by its final close. New Mexico's pension fund reportedly plans to commit $75 million to Brookfield's new fund. Some sovereign wealth funds are planning to commit $500 million apiece to the pool. Other investors in the fund include Oregon Public Employees Retirement System and Maine Public Employees Retirement System, according to data compiled by Bloomberg. If the cap for the new fund is reached, it would be 71% bigger than its predecessor, which the Toronto-based asset manager raised in 2013 with $7 billion in commitments. The second fund has an 18.4% net internal rate of return and a 1.2 times multiple of invested capital, according to Sept. 30 figures from the Teachers Retirement System of New York. That performance puts the fund in the top quartile compared to its peers, according to data compiled by Bloomberg.

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Global Dividend Payers

ABB Limited - Dagens Industri reported on Friday (April 8th) citing ABB's head of strategy in Africa that the company is growing at 30% p.a. in Africa and aims to double orders in the continent in 3 years. The official added that ABB is targeting sales of more than $3 billion by 2020 compared to $1.2 billion in 2015.

Barry Callebaut AG - 1st Half 2016 results broadly in line with expectations – Earnings Before Interest and Taxation (EBIT) per tonne down 4.5%. Volume growth deceleration: From 6.4% in 1Q to 2.3% in 2Q mainly due to volume decrease in Cocoa (-13.7% after -2.0% in 1Q) due to the phasing out of less profitable contracts. EBIT down 12.4% to CHF 215 or down 4.5%, mainly due to a 40.5% drop in Cocoa. Europe and Americas reported a decrease as well, by 13.8% and respectively 7.7%. Operating cash flow up 10% to CHF 290 million partly thanks to company's initiative, but as well the effect from the later arrival of the cocoa main crop. Inventories slightly up. Capex down by a third. It seems that the measures in order to restore profitability in Cocoa are bearing fruit (less volume, better than expected profit in spite of negative combined cocoa ratio).

Diageo PLC - An ok month for Diageo with sales growth of +3.0% (vs. +3.0% Q1 2016). Volumes were positive with +0.4% growth (vs. +0.1% Q1 2016). Price per unit growth was +2.5% in the month (vs. +2.9% in Q1 2016. Scanning the performance by brand, and Smirnoff continued to be Diageo's worst performer (value share down -40bps). Captain Morgan grew sales +0.6% in the month (vs. +1.2% Q1 2016), while Crown Royal sales increased +8.9% (vs. +10.6% Q1 2016) and Ciroc sales increased +6.9% (vs. +5.8% Q1 2016).

The Procter & Gamble Company (P&G) – The Board of Directors of P&G declared an increased quarterly dividend of $0.6695 per share, payable on or after May 16, 2016. This represents a 1% increase compared to the prior quarterly dividend. This dividend increase marks the 60th consecutive year that the company has increased its dividend, demonstrating its commitment to - and extending its long-term track record of - returning cash to shareholders. The company expects total dividend payments to shareholders of approximately $7.5 billion in fiscal year 2016, bringing total dividends paid over the last decade to nearly $60 billion. P&G has been paying a dividend for 126 consecutive years since its incorporation in 1890. P&G noted that the amount of the dividend increase reflects the cash impacts from streamlining and strengthening the business unit portfolio and the company`s plans to increase investments in the business to achieve balanced top- and bottom-line growth. With this dividend increase, P&G`s payout ratio of dividends to net earnings is expected to be over 70% for the current fiscal year. Based on P&G`s recent stock price, the annualized dividend yield on P&G`s common stock is approximately 3.2%.

Economic Conditions

U.S. – The U.S. Non-manufacturing Purchasing Managers Index (NMI), issued by the Institute for Supply Management, improved to 54.50 index points, marginally exceeding expectations for the month of March. All the components of this composite index, including new orders, business activity, employment and supplier delivery delays contributed to the positive performance in the month, as 12 of the 18 industries surveyed also reported improved business conditions.

The U.S. balance of trade worsened in February, with the deficit of $47.1 billion exceeding both the expectations, at $46.2 billion and the prior's month reading of $45.9 billion. Exports actually improved by 1% in the month, though imports were 1.3% stronger, with a solid contribution from consumer goods imports, flagging consumer sector strength ahead. Consumer credit in the US increased by $17.22 billion in February, ahead of the expectations, and is likely to provide a boost to the consumer sector as well.

Canada – Canadian economy added more than 40,000 jobs in March, including more than 35,000 full time jobs, all of them in the private sector. The headline unemployment rate dropped to 7.1% from 7.3%, as job gains in healthcare, hospitality and professional and technical services were only partly offset by job losses in manufacturing and construction.

Canadian housing starts pulled back, to a 204,000 units annualized level in March, from 219,000 units annualized in February, with more pronounced weakness in British Columbia being offset by a pick-up in activity in Ontario. Building permits, meanwhile, were up 15.5% in February, more than offsetting January's 9.5% drop.

Financial Conditions

The Reserve Bank of Australia (RBA) left the overnight cash rate steady at a record low of 2.0%. There were little changes to April's accompanying statement, with the RBA concluding that "Over the period ahead, new information should allow the Board to assess the outlook for inflation and whether the improvement in labour market conditions evident last year is continuing. Continued low inflation would provide scope for easier policy, should that be appropriate to lend support to demand".

The U.S. 2 year/10 year treasury spread is now 1.04% and the U.K.'s 2 year/10 year treasury spread is .99% - meaning investment banks remain constrained from profiting from a steep yield curve and instead are seeking operational efficiencies, including job cuts and lower compensation, to maintain acceptable levels of profit, i.e. above their costs of capital.

Influenced by the withdrawal of quantitative easing, the US 30 year mortgage market rate has increased to 3.59% (was 3.31% end of November 2012, the lowest rate since the Federal Reserve began tracking rates in 1971). Existing U.S. housing inventory is at 5.2 months supply of existing houses. So the combined effects of low mortgage rates, near record high affordability, economic recovery, job creation, and low prices are finally supporting the housing market with housing inventory well off its peak of 9.4 months and we believe now in a more normal range of 4-7 months.

The VIX (volatility index) is 14.96 (compares to a post-recession low of 10.7 achieved in early June) and while, by its characteristics, the VIX will remain volatile, we believe a VIX level below 25 augurs well for quality equities.

Mutual Funds

Portland Investment Counsel Inc. currently offers 7 Mutual Funds:

- Portland Advantage Fund
- Portland Canadian Balanced Fund
- Portland Canadian Focused Fund
- Portland Global Income Fund
- Portland Global Banks Fund
- Portland Global Dividend Fund
- Portland Value Fund

Private/Alternative Products

Portland also currently offers private/alternative products:

- Portland Focused Plus Fund LP
- Portland Focused Plus Fund
- Portland Private Income Fund
- Portland Global Energy Efficiency and Renewable Energy Fund LP
- Portland Advantage Plus Funds
- Portland Private Growth Fund

We want to share our insights with you and welcome your feedback. Our website has the latest, as well as archived videos, company profiles, and press articles. Please visit us at www.portlandic.com.

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